

## Message Text

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70

ACTION EB-07

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H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01

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FM AMEMBASSY VIENNA

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INFO USMISSION GENEVA

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SUBJECT: INCREASE IN AUSTRIAN MOTOR VEHICLE TAXES

REF: A) STATE 244446; B) VIENNA 7723; C) VIENNA 8309;  
D) STATE 65257

1. SUMMARY. AUSTRIAN FINANCE MINISTRY HAS PRESENTED ITS VIEWS TO EMBAERYZUJBTFEFFECT OF ITS NEW, HIGHER MOTOR VEHICLE TAXES ON 1967 EXCHANGE OF NOTES WITH USG. AUSTRIANS STRONGLY CONTENTED THAT THEIR ACTION WILL NOT APPRECIABLY DAMAGE US INTERESTS AND GAVE THE IMPRESSION THAT THEY WOULD BE VERY RELUCTANT TO OFFER ANY SUBSTANTIAL COMPENSATION IN GATT ARTICLE XXVIII NEGOTIATIONS. END SUMMARY.

2. AT AUSTRIAN REQUEST, EMBOFF CALLED ON FRANZ MANHART, DEPUTY DIRECTOR AUSTRIAN SUTOMS, AND ERNST PALISEK,

HEAD OF GATT AFFAIRS OFFICE IN FINANCE MINISTRY  
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CONCERNING NEW, HIGHER AUSTRIAN MOTOR VEHICLE TAXES

WHICH WENT INTO EFFECT OCTOBER 1. (MANHART HAD BEEN ON AUSTRIAN GENEVA DELEGATION DURING KENNEDY ROUND.) MANHART SAID THAT WHILE TRADE MINISTRY WOULD BE IN CHARGE OF ANY ARTICLE XXVIII NEGOTIATIONS, FINANCE MINISTRY WISHES TO CONVEY ITS VIEWS ON MATTER TO USG IN ADVANCE OF ANY DISCUSSIONS IN GENEVA.

3. MANHART BEGAN BY STATING THAT SINCE THE NEW FEDERAL MOTOR VEHICLE TAX WAS A SEPARATE LEVY, IT COULD BE ARGUED THAT IT WAS NOT RELATED TO AUSTRIA' OBLIGATIONS UNDER THE 1967 EXCHANGE OF NOTES. EMBOFF REPLIED THAT USG HAD FIRMLY REJECTED SUCH AN INTERPRETATION AND THAT TRADE MINISTER STARIBACHER HAD ALREADY CONFIRMED AUSTRIAN WILLINGNESS TO ENTER INTO NEGOTIATIONS WITH THE US ON THIS SUBJECT. MANHART DID NOT PURSUE THIS ARGUMENT FURTHER.

4. FINANCE MINISTRY OFFICIALS THEN DESCRIBED AUSTRIAN POSITION ON SUBSTANCE OF MATTER IN SOME DETAIL. BRIEFLY STATED, IT WAS THEIR VIEW THAT MOST OF GOA CONCESSION REMAINED INTACT, THAT GOA ACTION DID NOT DEMONSTRATIVELY DAMAGE US INTERESTS, AND THAT, THEREFORE, BY IMPLICATION, NO SIGNIFICANT AUSTRIAN COMPENSATION WAS REQUIRED. MANHART AND PALISEK MADE FOLLOWING POINTS TO SUPPORT THEIR CONTENTION:

A. AUSTRIANS CLAIMED THAT US KENNEDY ROUND CONCESSION ON MANICURE SETS AND SKI BOOTS NOT MADE SOLELY IN RETURN FOR AUSTRIAN OBLIGATION TO MAINTAIN RELATION BETWEEN TAX RATES SET FORTH IN 1967 EXCHANGE OF NOTES, BUT ALSO FOR AN AUSTRIAN COMMITMENT TO REDUCE THE THEN-EXISTING TAX RATES ON LARGE-ENGINEED AUTOMOBILES. THEY ASSERTED THAT UNTIL 1965, THE ARITHMETIC MEAN OF MOTOR VEHICLE TAX RATES FOR AUTOMOBILES WITH ENGINE DISPLACEMENTS OVER 2500 CCS. WAS 9.3 TIMES HIGHER THAN THE CORRESPONDING MEAN FOR CARS WITH ENGINES UNDER 2500 CCS. AN INITIAL AUSTRIAN CONCESSION IN 1965 REDUCED THIS DISPARITY TO A MANGINTUDE OF 3.1 FOR VEHICLES WHICH HAD PAID THE FULL AMOUNT OF TAX FOR LIMITED OFFICIAL USE

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THREE YEARS. THEY ADDED THAT AS A RESULT OF THE 1967 EXCHANGE OF NOTES, AUSTRIA MADE THE LOWER RATES ON LARGE-ENGINEED CARS EFFECTIVE FROM INITIAL REGISTRATION AND PROMISED TO MAINTAIN RELATIVE TAX BURDEN ON VEHICLES WITH ENGINES OF MORE THAN 2500 CCS. COMPARED TO THOSE WITH LESS. SINCE THE NEW FEDERAL MOTOR VEHICLE TAX CAME INTO EFFECT ON OCTOBER 1, AVERAGE TAX BURDEN ON LARGE-ENGINEED CARS IS NOW 4.6 TIMES THAT

ON AUTOMOBILES WITH ENGINE CAPACITIES UNDER 2500 CCS. HOWEVER, THIS FACTOR OF DISCRIMINATION IS REDUCED TO 3.5 FOR VEHICLES WHICH HAVE PAID THE FULL TAX FOR THREE YEARS. BY COMPARING NEW TAX RATES WITH THOSE EXISTING BEFORE 1965, MANHART AND PALISEK CONCLUDED THAT MOST OF AUSTRIAN CONCESSION WAS STILL INTACT.

B. ANOTHER AUSTRIAN ARGUMENT WAS THAT MODIFICATION OF TAX RATES WOULD NOT APPRECIABLY DAMAGE US INTERESTS. FIRST, THEY POINTED TO SMALL NUMBERS OF US NEW AND USED CARS IMPORTED INTO AUSTRIA WHICH RANGED FROM A POST 1967 LOW OF 235 IN 1972 TO A HIGH OF 901 IN 1975 (FIGURES REQUESTED REF A BEING SSENT SEPTTEL). ACCORDING TO AUSTRIAN STATISTICS, THE 6,659 US AUTOMOBILES REGISTERED HERE AS OF DECEMBER 31, 1975 REPRESENTED ONLY 0.38 PERCENT OF TOTAL PASSENGER VEHICLES REGISTERED. SECOND, AUSTRIANS POINTED OUT THAT IN FIRST YEARS FOLLOWING 1967 AGREEMENT, IMPORTS OF NEW AND USED US AUTOMOBILES FELL (375 UNITS IN 1967; 343 IN 1968; 280 IN 1969; 303 IN 1970; 273 IN 1971; AND 235 IN 1972) AND CLAIMED THAT MODEST INCREASE IN LAST FEW YEARS IS LARGELY RESULT OF DOLLAR DEVALUATION RATHER THAN KENNEDY ROUND CONCESSION ON TAXES. THIRD, AUSTRIANS MAINTAINED THAT MANY US ORIGIN VEHICLES ARE IMPORTED BY FIRMS WHICH ARE ABLE TO WRITE OFF MOTOR VEHICLE TAXES AS A BUSINESS EXPENSE.

C. FINAL AUSTRIAN ARGUMENT WAS THAT FOR ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION REASONS, US SHOULD WELCOME AUSTRIAN ACTION WHICH HAS EFFECT OF ENCOURAGING COMPANIES TO BUILD, AND CONSUMERS LIMITED OFFICIAL USE

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TO BUY AUTOMOBILES WITH SMALLER ENGINES.

5. EMBOFF TOLD MANHART AND PALISEK THAT HE WAS NOT IN A POSITION TO RESPOND TO AUSTRIAN PRESENTATION BUT WOULD RELAY THEIR VIEWS TO THE APPROPRIATE US OFFICIALS.

6. COMMENT: EMBASSY DOES NOT HAVE INFORMATION ON KENNEDY ROUND NEGOTIATIONS BUT NOTES THAT 1967 AGREEMENT SPEAKS BOTH OF AUSTRIAN INTENTION TO REDUCE THE THEN EXISTING TAX RATES ON LARGER CARS AS WELL AS TO MAINTAIN A SPECIFIC RELATIONSHIP BETWEEN RATES FOR AUTOMOBILES WITH ENGINES OF MORE THAN 2500 CCS. AND THOSE WITH LESS. AUSTRIAN CLAIM THAT US CAR EXPORTS TO AUSTRIA HAVE BENEFITTED MORE THAN DOLLAR

DEVALUATION THAN FROM THE 1967 CONCESSION ALSO APPEARS PLAUSIBLE. HOWEVER, IT COULD BE ARGUED THAT WITH CURRENT, MORE REALISTIC EXCHANGE RATES, CONCESSION AUSTRIANS ARE WITHDRAWING IS OF GREATER VALUE TO US NOW. (SUCH AN ARGUMENT COULD ALSO BE USED ADVANTAGEOUSLY BY AUSTRIANS SINCE DECLINE IN THEIR EXPORTS OF SKI BOOTS TO US IN RECENT YEARS COULD BE HELD TO DIMINISH CURRENT VALUE OF US CONCESSION TO THEM--SEE REF D). FINAL AUSTRIAN ARGUMENT REGARDING ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION IS, IN EMBASSY VIEW, IRRELEVANT TO AUSTRIAN OBLIGATIONS UNDER 1967 AGREEMENT.

7. WE INTERPRET FACT THAT FINANCE RATHER THAN TRADE MINISTRY OFFICIALS CALLED IN EMBOFF AS EFFORT TO EMPHASIZE THAT TAX INCREASE WAS MADE FOR REASONS OF FISCAL RATHER THAN TRADE POLICY. WHILE FINANCE MINISTRY POSITION IS MOST LIKELY HARDER THAN TRADE MINISTRY, WE NONETHELESS BELIEVE THAT GOA WILL BE RELUCTANT TO OFFER ANY SUBSTANTIAL COMPENSATION DURING ART. XVIII NEGOTIATIONS BECAUSE OF PREVAILING AUSTRIAN VIEW THAT THEIR ACTION CAUSES LITTLE DAMAGE TO US TRADE INTERESTS. END COMMENT. BUCHANAN

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